



ANNUAL REPORT

RED OWL STORES, INC.

FOR YEAR ENDED
FEB. 28, 1953



hams

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CORPORATION FILE



24th and Hennepin. This modern design was used when Red Owl entered Minneapolis proper with a store at 24th and Hennepin, opened in June 1952.

Highland Village Shopping Center. The Company's first store in St. Paul was completed in October 1952, in a large shopping center in Highland Village.



26th and West Broadway. The most recently opened store is located in Minneapolis at 26th Avenue and West Broadway. The grand opening was in January 1953.



31st Annual Report

FOR YEAR ENDED FEB. 28, 1953

RED OWL STORES, INC.

GENERAL OFFICES ★ HOPKINS, MINNESOTA

DIRECTORS

Ford Bell 1928

President

Red Owl Stores, Inc.

Alf L. Bergerud 1944

Vice President

Red Owl Stores, Inc.

John C. Cornelius 1948

Executive Vice President

Batten, Barton, Durstine & Osborn, Inc.

John Y. Dear 1943

Vice President

Red Owl Stores, Inc.

Glenn R. Grife 1935

Executive Vice President

Red Owl Stores, Inc.

Richard Kozelka 1949

Dean, School of Business Administration

University of Minnesota

Joseph F. Ringland 1944

President

Northwestern National Bank of Minneapolis

Henry C. Stephenson 1945

Treasurer & Assistant Secretary

Red Owl Stores, Inc.

H. J. Worrell 1944

Vice President

Red Owl Stores, Inc.

Year indicates when first elected to board

OFFICERS

Ford Bell

President

Glenn R. Grife

Executive Vice President

Alf L. Bergerud

Vice President

John Y. Dear

Vice President

H. J. Worrell

Vice President

Henry C. Stephenson

Treasurer & Assistant Secretary

J. T. Sydness

Secretary & Assistant Treasurer

Richard H. White

Assistant Secretary

Erling E. Rice

Assistant Vice President

F. D. Scott

Controller

How the Sales Dollar was divided

88.2¢ for merchandise, transportation and handling costs

9.5¢ for wages, salaries and employee benefits

0.9¢ for income taxes

0.6¢ for depreciation of buildings and equipment

0.5¢ to stockholders

0.3¢ re-invested in the business



Highlights of the year's operations

| | |
|---|--------------|
| We received from the sales of goods and services..... | \$95,088,938 |
| We paid for merchandise, transportation, handling costs, rents, maintenance, and general operating expenses other than payrolls..... | \$83,841,261 |
| We paid to our employees in wages and salaries, and for other employee benefits including social security, retirement income and group insurance..... | \$ 9,008,818 |
| We set aside for depreciation and amortization of fixed assets and leasehold improvements..... | \$ 652,930 |
| We set aside for federal and state taxes on income..... | \$ 840,000 |
| This left us as earnings..... | \$ 745,929 |

Out of these earnings

| | |
|---|------------|
| We paid to our preferred stockholders as dividends..... | \$ 42,265 |
| We paid to our common stockholders as dividends..... | \$ 432,067 |
| And we reinvested in the business..... | \$ 271,597 |

To our Stockholders and Employees



FORD BELL

Your Company completed its thirty-first year showing steady, sound growth. Sales reached the all-time high of \$95,088,938—an increase in excess of \$5,000,000 over last year. This volume increase, however, is not reflected proportionately in net earnings. Rising costs, which could not be offset by increased gross margins in our highly competitive, traditionally low-margin industry, had an impact on the year's results of operations.

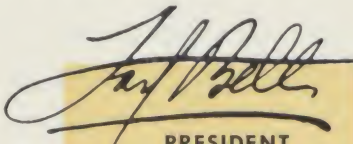
Earnings for the year, after taxes on income, amounted to \$745,929—a nominal increase of \$13,660 over the prior year. These earnings were shared with the stockholders in the form of dividends at the rate of \$1.00 per share common and \$4.75 per share preferred stock, for a total of \$474,332.

The financial position of the Company remains strong, and at the date of this report working capital is adequate for present volume requirements.

In the thirty-one years since its founding Red Owl Stores, Inc. has grown from a single unit to become one of the major retail and wholesale food distributors in the upper midwest. This progress reflects several factors: sound financial structure and planning; customer-pleasing stores and merchandising policies; modern, cost-cutting methods of food procurement, storing and distribution. The trade area served by our stores has enjoyed a substantial growth of business activity and the outlook for the immediate future appears satisfactory.

Plans have been completed for a long range campaign designed to make or maintain Red Owl the sales leader in all communities in which we operate. Maximum emphasis will be put on high standards of personnel and operating policies to develop the customers' habit of regular shopping at Red Owl Stores. It is intended that super market development will continue in accordance with predetermined plans, provided desirable properties can be satisfactorily leased. Existing locations will be remodeled and equipped where necessary to carry out an aggressive merchandising program directed towards sales improvement. Costs of carrying out such a program will be a material factor in the net operating results of the next year. Your management believes that sales are the foundation of our business and that, despite these costs, securing sales is investing in the future earning capacity of the company. Our objectives for the coming year call for even greater efficiencies and expense control in handling and distributing merchandise, and the utmost resourcefulness in merchandising techniques.

As in the past, we are counting on the support of our stockholders and of our loyal employees to attain these major objectives in the fiscal year 1953-1954.



PRESIDENT

Review of the year's operations



The year's results, though short of expectations in some respects, had certain favorable indications of progress — sales climbed to new heights, earnings improved slightly, new stores were opened, and dividends were paid quarterly.



RED OWL SALES PASS \$95,000,000

Total sales of goods and services for the year amounted to \$95,088,938, an increase of \$5,255,045, or 5.85% over the previous year. Retail Sales were \$67,344,759, an increase of 3.07%, which is due principally to the opening of additional super markets during the year. Wholesale sales amounted to \$27,744,179, an increase of 13.27%, due largely to added volume secured from existing accounts.



NET EARNINGS IMPROVE SLIGHTLY

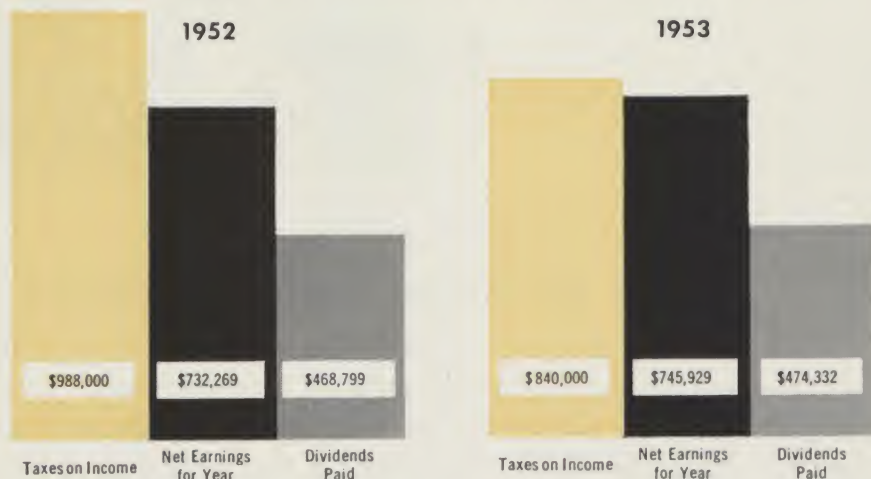
Pre-tax consolidated earnings amounted to \$1,585,929, compared with \$1,720,269 in the prior fiscal period. Consolidated earnings after taxes on income were \$745,929. This is an increase of \$13,660 over the previous year. Although some adjustments were made as a result of relaxed price control regulations, the over-all effect on gross margins was negligible and to a great extent offset



TOTAL SALES COMPARISON

by increased costs of doing business. Pre-opening and non-recurring costs of opening new super markets are a significant factor of expense during the first few months of their operation. The Company netted about 8/10ths of a cent for each sales dollar.

COMPARISON OF TAXES ON INCOME, NET EARNINGS AND DIVIDENDS



Earnings per share of common stock, based on shares outstanding at the year-end, were \$1.54 after meeting preferred dividend requirements, compared with \$1.63 per share the previous fiscal year. The decrease in earnings per share is due to the conversion of preferred shares to common stock which was accelerated towards the close of the year due to the change in conversion privilege rate. 6232 preferred shares were exchanged during the year for 42,804 shares of common stock.



DIVIDENDS PAID 19 CONSECUTIVE YEARS

Regular quarterly dividends of 25 cents per share were paid to common shareholders for a total of \$432,067. This is the second successive fiscal year that the rate of \$1.00 per share has been maintained, and eleven quarterly payments have continued at the 25 cent rate. Preferred shareholders were paid \$42,265, at \$4.75 per share.

A dividend check arrives in the morning mail for this pleased stockholder. His Red Owl stock has paid a fair return and has increased in book value.



WE'RE A BIG FAMILY, WITH 3500 MEMBERS

One of the company's most important assets is the group of loyal employees who are responsible for much of Red Owl's success and progress. Red Owl people participate in a liberal group insurance plan on a voluntary basis, a substantial portion of the premium being paid by the company. Also, after meeting eligibility requirements, all personnel are covered by a deferred annuity retirement plan, the cost of which is paid entirely by the company. The management recognizes and appreciates the joint efforts of its employees in the development of Red Owl. Total salaries paid to approximately 3500 full and part time employees during the year amounted to \$8,578,564.



Before turning his attention to the company benefit plans, one of our employees looks over an item of interest in our house organ, the Red Owl Circle.



Customers like the fast, friendly service they get in a Red Owl store. Here a smiling cashier quickly adds up prices at the check out counter.



NEW STORES — NEW CUSTOMERS

Red Owl has extended its super market development by opening new units in Marinette, Wisconsin, Rapid City, South Dakota (near the air base), in Minnesota in the Highland Village Shopping Center, St. Paul, Miracle Mile, Rochester, and in Minneapolis at 24th and Hennepin and 26th and West Broadway. Our new modern structures and equipment represent the finest in customer appeal and shopping comfort. Courteous, friendly service is as much a part of our merchandising policy as providing customers with quality goods at lowest possible prices. At the year-end the Company had 162 corporate stores, 17 less than a year ago, and 562 agency customers, a net increase of 3 over a year ago. In addition to providing new sales, large volume super markets increase tonnage substantially to lower per ton handling and distributing costs.

Several innovations (described on the inside back cover) were made in the larger super markets during the year. Entry into the non-food items field was also extended.

In the interest of developing new customers, every effort is made by the Company to take part in civic and community affairs.

Public Relations Director Paul Nickel presents a check for the Red Owl Stores Practical Nursing-Home Management Scholarship to University of Minnesota Officials. Tuition funds were furnished for four students.





WHAT'S AHEAD?

Emphasis for the year ahead will be on sales—to develop the customers' habit of consistently shopping at Red Owl. The merchandising program will be aggressive, designed to attract and hold customers in all existing stores as well as in anticipated new units. With the combination of these added stores and an intensive sales campaign, it is expected that the coming year will again set a sales record.

A new warehouse is now under construction in Green Bay, Wisconsin, financed on a sale-lease back basis, which is expected to be ready for occupancy the latter part of 1953. With the added capacity of this building it will be possible to expand the corporate store and agency wholesale operations to a greater degree in that area, and improve the efficiency of handling merchandise.

Further development into the super market field is planned, and to this end the company is constantly investigating the better potential locations within our trade area.

These plans are all part of a long range program of building future earning power. Attainment of these objectives must hinge, as always, upon the continuing wholehearted support of our customers, employees and stockholders.

CONSOLIDATED STATEMENT OF OPERATIONS AND EARNINGS REINVESTED IN BUSINESS

Red Owl Stores, Inc. and Subsidiary Companies

Year ended February 28, 1953 (with comparative figures for the previous year)

| | Year Ended | |
|---|---------------|---------------|
| | Feb. 28, 1953 | March 1, 1952 |
| Net retail sales..... | \$67,344,759 | 65,340,696 |
| Net wholesale sales..... | 27,744,179 | 24,493,197 |
| Gain on sale of property and equipment..... | 31,890 | 31,699 |
| Other income..... | 10,461 | 29,907 |
| Total gross revenue..... | 95,131,289 | 89,895,499 |
| Costs and expenses: | | |
| Cost of goods sold, including warehousing and transportation expenses..... | 82,017,207 | 77,515,733 |
| Selling, general and administrative and other operating expenses (note 3)..... | 11,386,380 | 10,531,519 |
| Interest: { On long-term debt..... | 116,250 | 87,793 |
| { Other..... | 4,853 | 14,881 |
| Other miscellaneous charges..... | 20,670 | 25,304 |
| Taxes on income, estimated: | | |
| Federal: { Income tax..... | 782,000 | 854,000 |
| { Excess profits tax..... | 11,000 | 80,000 |
| State..... | 47,000 | 54,000 |
| Total costs and expenses..... | 94,385,360 | 89,163,230 |
| EARNINGS FOR YEAR..... | 745,929 | 732,269 |
| Deduct dividends on Red Owl Stores, Inc. capital stock: | | |
| 4¾% cumulative preferred stock, Series A..... | 42,265 | 55,459 |
| Common stock—\$1.00 per share..... | 432,067 | 413,340 |
| | 474,332 | 468,799 |
| Earnings for year reinvested in business..... | 271,597 | 263,470 |
| Balance of earnings reinvested in business at beginning of year..... | 4,553,430 | 4,289,960 |
| Balance of earnings reinvested in business at end of year (note 2)..... | \$ 4,825,027 | 4,553,430 |
| Depreciation and amortization expense included in costs and expenses amounted to \$652,930 and \$593,869 in respective years. | | |

See accompanying notes to financial statements

CONSOLIDATED BALANCE SHEET

February 28, 1953

ASSETS

| CURRENT ASSETS: | Feb. 28, 1953 | March 1, 1952 |
|--|---------------|---------------|
| Cash | \$ 1,638,969 | 1,870,795 |
| United States Government securities, at cost | 9,037 | 9,037 |
| Accounts receivable: | | |
| Customers | 926,440 | 892,779 |
| Due from vendors, claims, etc. | 141,313 | 163,742 |
| | 1,067,753 | 1,056,521 |
| Less allowance for doubtful accounts | 96,763 | 95,753 |
| | 970,990 | 960,768 |
| Merchandise inventories, at cost (first-in, first-out) | | |
| less \$285,000 reserve | 7,038,525 | 7,052,519 |
| Prepaid expenses | 218,500 | 286,043 |
| Advances for warehouse building construction (note 4) | 720,633 | — |
| Total current assets | 10,596,654 | 10,179,162 |
| CASH SURRENDER VALUE OF LIFE INSURANCE | 35,768 | 30,552 |
| PROPERTY, PLANT AND EQUIPMENT, at Cost: | | |
| Land | 187,618 | 183,424 |
| Buildings | 275,239 | 72,071 |
| Furniture, fixtures and equipment | 4,138,191 | 3,830,629 |
| Automotive equipment | 1,569,093 | 1,436,964 |
| | 6,170,141 | 5,523,088 |
| Less depreciation | 2,635,606 | 2,262,416 |
| | 3,534,535 | 3,260,672 |
| Leasehold improvements, at cost less amortization | 998,287 | 996,418 |
| | 4,532,822 | 4,257,090 |
| OTHER ASSETS | 68,865 | 82,724 |
| | \$15,234,109 | 14,549,528 |

RED OWL STORES, INC. and Subsidiary Companies

(with comparative figures for the previous year)

LIABILITIES

| CURRENT LIABILITIES: | Feb. 28, 1953 | March 1, 1952 |
|---|---------------|---------------|
| Drafts payable..... | \$ 84,183 | 48,642 |
| Accounts payable..... | 2,702,385 | 2,272,954 |
| Dividend payable on preferred stock..... | 6,221 | 13,604 |
| Accrued expenses..... | 690,760 | 616,634 |
| Federal and State taxes on income, estimated.... | 921,494 | 1,039,130 |
| Total current liabilities..... | 4,405,043 | 3,990,964 |
| LONG-TERM 37 $\frac{7}{8}$ % NOTES PAYABLE due July 1, 1966, payable in annual installments of \$240,000 on July 1 in each of the years 1955 through 1965 and unpaid balance on July 1, 1966 (note 2)..... | 3,000,000 | 3,000,000 |
| STOCKHOLDERS' EQUITY: | | |
| Capital Stock (notes 1 and 2): | | |
| Preferred stock—par value \$100 per share. | | |
| Authorized 25,000 shares; issued and out- standing at respective dates, 5,239 and 11,471 shares, 4 $\frac{3}{4}$ % cumulative, Series A | 523,900 | 1,147,100 |
| Common stock—par value \$3 per share. | | |
| Authorized 750,000 shares; issued and out- standing at respective dates, 457,688 and 414,884 shares..... | 1,373,064 | 1,244,652 |
| | 1,896,964 | 2,391,752 |
| Additional amounts paid in by stockholders, less expenses in connection with stock issue (including in current year \$493,693 arising from conversion of preferred stock) (note 1)..... | 1,107,075 | 613,382 |
| Balance of earnings reinvested in business, per accompanying statement (note 2)..... | 4,825,027 | 4,553,430 |
| | 5,932,102 | 5,166,812 |
| LONG-TERM LEASE COMMITMENTS (note 4)..... | | |
| | \$15,234,109 | 14,549,528 |

NOTES TO FINANCIAL STATEMENTS

Red Owl Stores, Inc. and Subsidiary Companies

1. The 4¾% cumulative preferred stock, Series A, is redeemable on call and on voluntary liquidation at \$106 per share to January 1, 1957, and \$105 per share thereafter, plus dividends accrued or in arrears to the redemption date. Shares of such preferred stock (taken at \$100 per share) are convertible into common stock at \$16 per share to December 31, 1954 and \$18 per share from January 1, 1955 to December 31, 1956 (at which date conversion privileges expire).

In connection with the foregoing, 32,744 shares of authorized and unissued common stock are reserved for issuance upon conversion of preferred stock. The conversion prices are subject to adjustment in certain instances specified in the "Certificate of the Designations, Preferences and Relative, Participating, Optional or Other Special Rights of the 4¾% Cumulative Preferred Stock, Series A, of Red Owl Stores, Inc.", which also sets forth certain restrictions on the issuance of additional shares of preferred stock, increase in funded debt and sale of property.

2. Restrictions on payment of dividends (except stock dividends) and purchase, redemption or retirement of capital stock are imposed by terms of the agreements relating to the 3⅞% notes. The amount free from such restrictions at February 28, 1953 was \$837,844. In view of the foregoing, like restrictions under the preferred stock requirements of the certificate of incorporation as amended, and Board of Directors' resolution authorized thereunder, are not applicable.

The note agreements, among other things, provide for prepayment of the long-term debt at the option of the company at varying premiums.

3. Employee benefit costs included in selling, general and administrative and other operating expenses are as follows:

| | YEAR ENDED | |
|---|---------------|---------------|
| | Feb. 28, 1953 | March 1, 1952 |
| Officers' and employees' profit sharing | \$156,421 | 134,000 |
| Pension premium costs | 171,644 | 165,000 |

The retirement pension plan, approved by stockholders and effective February 26, 1945, is qualified under the Internal Revenue Code and provides retirement benefits for eligible employees. The entire cost of the plan is borne by the company and past service costs approximating \$161,000 are being amortized over a ten-year period from that date. While the company reserves the right to discontinue the plan (in which event all premiums paid inure to the benefit of employees), its continuance is anticipated.

4. Long-term leases expiring more than three years after February 28, 1953, established minimum annual rentals on 77 stores and 3 warehouses. The approximate present minimum annual rentals under such leases, excluding any taxes, insurance, or maintenance costs payable by the lessee, amount to \$623,000. Of this amount, leases with annual rentals of \$171,000 expire within five years and 4 leases with present minimum annual rentals of \$183,000 with provision for reduction in rental over the remaining term of the principal lease, have terms extending beyond twenty years from that date.

The company is presently constructing under a sale and lease-back agreement a new warehouse to be completed in the latter part of 1953 at a cost not to exceed \$2,300,000. Of this amount, construction expenditures aggregating \$720,633 at February 28, 1953, which are recoverable from the purchaser, are included in current assets. The terms of the commitment by the purchaser provide for an initial lease for twenty-five years at an annual rental estimated at approximately \$160,000, excluding taxes, insurance and maintenance costs.

AFRICA
AUSTRALIA
CANADA
CONTINENTAL EUROPE
EUROPE
GREAT BRITAIN
HONG KONG
INDIA
JAPAN
MEXICO
SOUTH AMERICA

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
NORTHWESTERN BANK BUILDING
MINNEAPOLIS 2, MINN.

NEW YORK
ATLANTA
BALTIMORE
BIRMINGHAM
BOSTON
BUFFALO
CHARLOTTE
CHICAGO
CINCINNATI
CLEVELAND
DALLAS
DENVER
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SAN FRANCISCO
SAN JOSE
SEATTLE
SPRINGFIELD
TERRE HAUTE
TULSA
WASHINGTON
WATERBURY

ACCOUNTANTS' REPORT

The Board of Directors

Red Owl Stores, Inc.:

We have examined the consolidated balance sheet of Red Owl Stores, Inc. and subsidiaries as of February 28, 1953 and the related statement of operations and earnings reinvested in business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of operations and earnings reinvested in business present fairly the financial position of Red Owl Stores, Inc. and subsidiaries at February 28, 1953 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

Minneapolis, Minnesota

April 24, 1953

FIVE YEAR STATISTICAL SUMMARY

Red Owl Stores, Inc. and Subsidiary Companies

| Fiscal Year Ended In | 1953 | 1952 | 1951 | 1950 | 1949 |
|---|----------------------|----------------------|-------------------|-------------------|-------------------|
| SALES | | | | | |
| Retail..... | \$67,344,759 | 65,340,696 | 55,359,134 | 50,822,144 | 51,806,921 |
| Wholesale..... | 27,744,179 | 24,493,197 | 22,761,945 | 18,873,627 | 16,848,559 |
| Total..... | 95,088,938 | 89,833,893 | 78,121,079 | 69,695,771 | 68,655,480 |
| Earnings before taxes on income..... | 1,585,929 | 1,720,269 | 2,157,583 | 1,775,677 | 1,242,097 |
| Taxes on income..... | 840,000 | 988,000 | 1,111,000 | 718,592 | 469,000 |
| Net earnings for year.. | 745,929 | 732,269 | 1,046,583 | 1,057,085 | 773,087 |
| Per share of Common | 1.54 | 1.63 | 2.41 | 2.52 | 1.80 |
| Per dollar of sales | $\frac{8}{10}$ of 1c | $\frac{8}{10}$ of 1c | 1 $\frac{1}{3}$ c | 1 $\frac{1}{2}$ c | 1 $\frac{1}{8}$ c |
| Dividends paid | | | | | |
| Per share Common.. | 1.00 | 1.00 | .90 | .50 | .50 |
| Per share Preferred.. | 4.75 | 4.75 | 4.75 | 4.75 | 4.75 |
| Current Assets..... | 10,596,654 | 10,179,162 | 8,695,462 | 6,683,613 | 6,545,640 |
| Current Liabilities.... | 4,405,043 | 3,990,964 | 4,714,840 | 2,637,100 | 3,581,522 |
| Net Working Capital.. | \$ 6,191,611 | 6,188,198 | 3,980,622 | 4,046,513 | 2,964,118 |
| Ratio of Current Assets to Current Liabilities | 2.41 to 1 | 2.55 to 1 | 1.84 to 1 | 2.53 to 1 | 1.83 to 1 |
| Stockholders' equity... | \$ 7,829,066 | 7,558,564 | 7,295,710 | 6,672,938 | 5,749,266 |
| Book value per share Common..... | \$ 15.89 | 15.29 | 14.60 | 12.97 | 10.61 |
| Number of stores at close of year | | | | | |
| Retail..... | 162 | 179 | 181 | 189 | 199 |
| Agency..... | 562 | 559 | 546 | 536 | 476 |

RED OWL FACILITIES MAP



WAREHOUSES



CORPORATE STORES

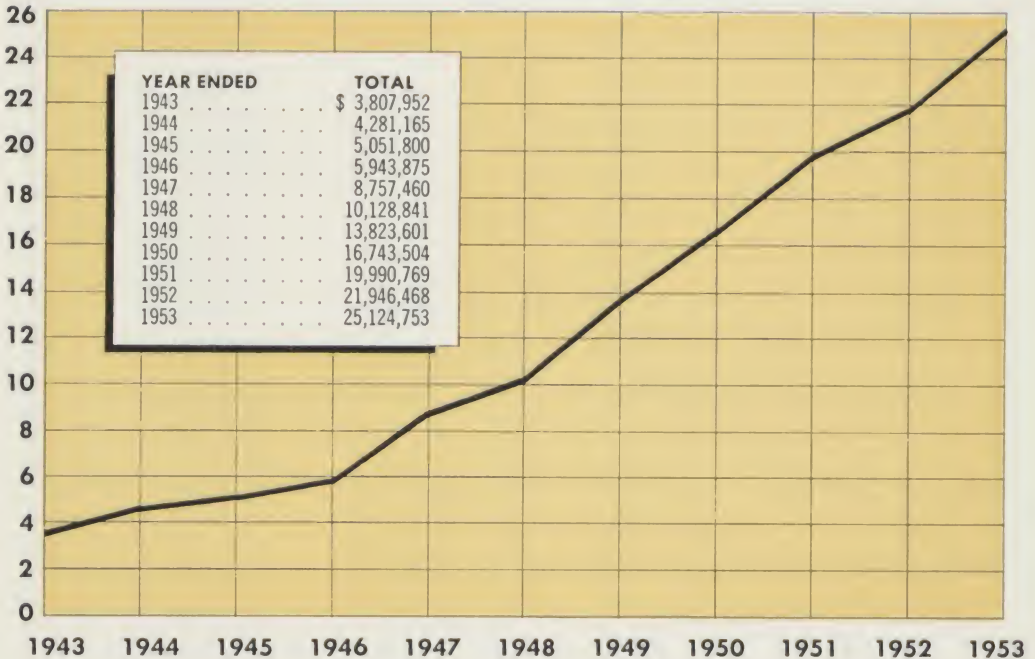


AGENCY STORES

Red Owl now operates 162 corporate retail stores in nine states. However, the majority are located in Minnesota, the Dakotas, and Wisconsin. There are now 562 agency stores in the trade area, a net increase of 3 over the previous year.

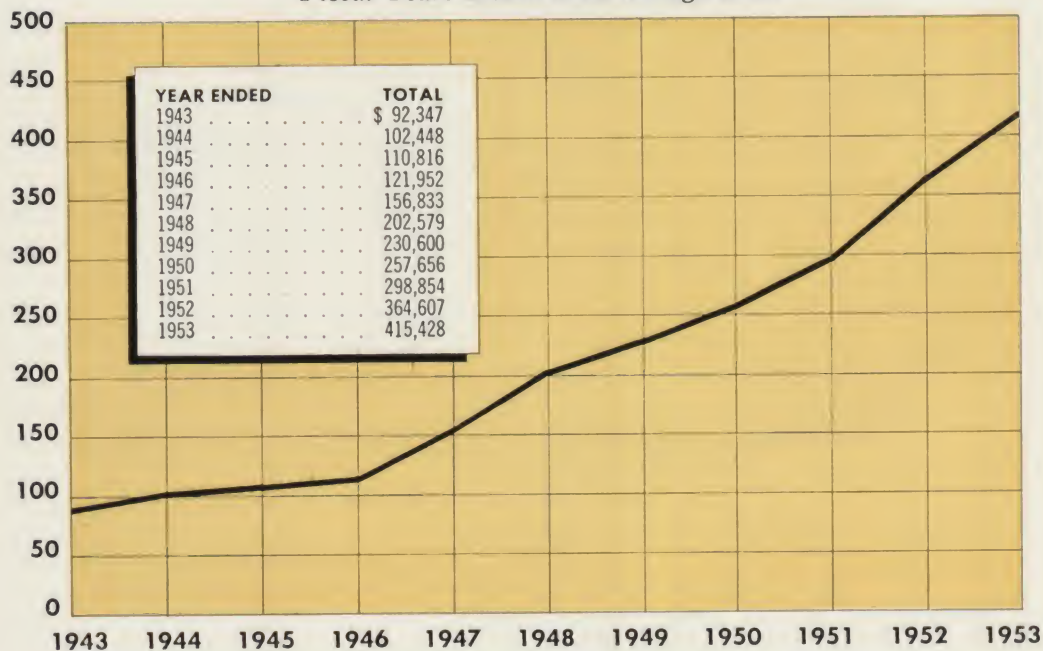
SALES TO AGENCY STORES

Fiscal Years Ended 1943 through 1953



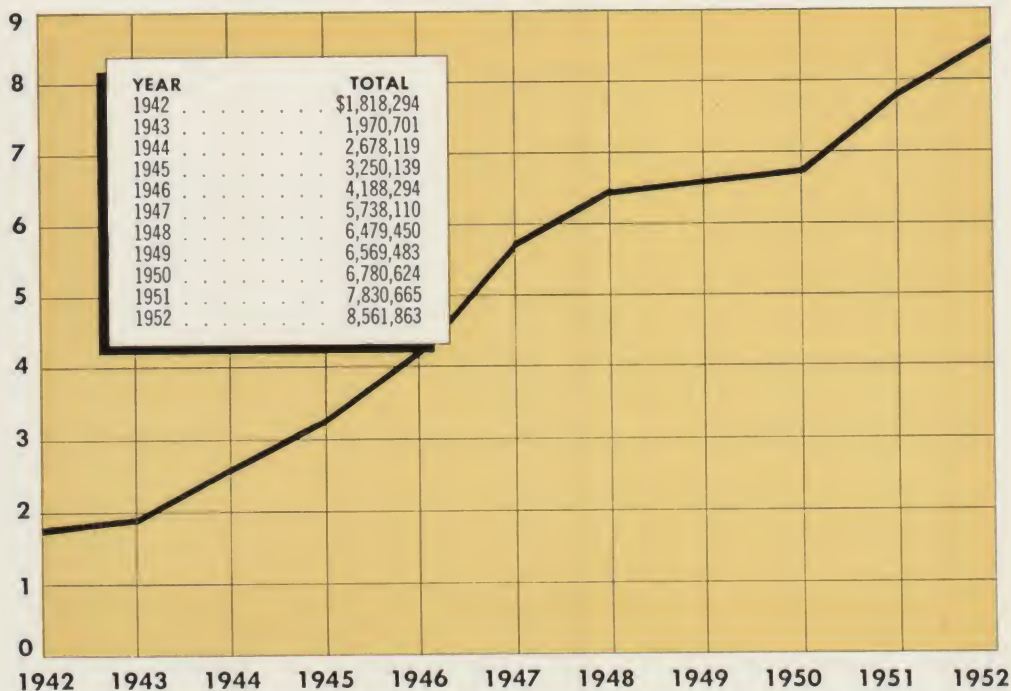
AVERAGE RETAIL SALES PER LOCATION

Fiscal Years Ended 1943 through 1953



SALARIES AND WAGES

Calendar Years Ended December 31, 1942-1952





1. Taste-tempters for that party she's giving. The Snack and Party Foods section is one of the newest and most popular departments in the larger supermarkets.



2. When her shopping list includes health and beauty aid items, she finds it easy to select them from the special department in her Red Owl Store.



Why a housewife likes her Red Owl Store

3. The fruit and vegetable department *always* looks clean, fresh and sanitary. Pre-packaged produce has customer appeal and keeps merchandise in better condition.

4. She Toots and we Tote. Courteous personnel provide carry-out service for Red Owl customers. Our interest in customers goes beyond the check-out stand.





For further information about the activities and policies of Red Owl Stores, please write to . . .

RED OWL STORES, INC.
HOPKINS, MINNESOTA

Executive Offices: 215 E. Excelsior Avenue, Hopkins, Minn. • Mailing Address: Post Office Box 1128, Minneapolis, Minn. • Stock Transfer Agent: Northwestern National Bank of Minneapolis • Auditors: Peat, Marwick, Mitchell & Co.